



DEPARTMENT OF STATE

Washington, D.C. 20520

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(WITH SECRET ATTACHMENT)

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May 5, 1980

MEMORANDUM FOR DR. ZBIGNIEW BRZEZINSKI
THE WHITE HOUSE

Subject: Your Meeting With Argentine Minister of
the Economy Jose Martinez de Hoz

You have agreed to receive Argentina's Minister
of Economy Martinez de Hoz during his informal visit
to Washington on May 6.

Acting Secretary Christopher and Secretary Miller
will meet separately with Martinez de Hoz after his
call on you. Ambassador Gerard Smith is hosting a
small luncheon, which Mr. Lloyd Cutler and Ambassador
Owen plan to attend.

We recommend that you address three topics:

- The Administration's strategy in Southwest
Asia, including the importance of the partial grains
embargo and the Moscow Olympics boycott;
- Our concern over Argentina's expanding relationship
with the Soviet Union, of which Martinez de Hoz has
been a principal architect; and
- Our interest in U.S. participation in Yacyreta.

Southwest Asia

We have been providing the Argentines with intensive
briefings on Iran and Afghanistan, most recently during
our talks with Under Secretary for Foreign Affairs
Cavandoli here on May 1-2. The points most frequently
raised by the Argentines, which we recommend you address,
are:

-- The outlook for a political solution to the
Afghanistan problem.

Argentine officials are concerned that they might
suddenly be faced with a thaw in U.S.-Soviet relations;
they question whether the current high level of tension
can continue for long. They are reluctant to restrict
a profitable commercial and political relationship
with the Soviets.

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-- The effectiveness of the security framework in opposing the Soviet effort.

Within the GOA, Martinez de Hoz has been an outspoken skeptic of the effectiveness of U.S. political and economic sanctions, especially the grains embargo; he believes that only U.S. military counter moves will truly impress the Soviets and that progressive erosion of our grains restrictions will ultimately force us to abandon that approach.

-- An alleged imbalance in burden-sharing resulting from the grains embargo.

While offering cooperation (~~attachment A~~ ^{Tab C}), Martinez de Hoz has been arguing vigorously that the U.S. is asking Argentina to assume a disproportionate share of the burden. Argentina (unlike Australia) is a principal supplier of feed grains on the world market, and U.S. marketing policies since the embargo, he claims, have contributed to the loss by Argentina of its traditional export markets.

As you know, Acting Secretary Christopher will discuss with Martinez de Hoz Argentine cooperation in the grains restrictions during the 1980-81 crop year. We also expect that this topic will come up at Ambassador Smith's luncheon. (The U.S. proposes to hold its level of sales to the U.S.S.R. to 8 million metric tons for October 1980/September 1981 and seeks commensurate commitments in the form of specific ceilings from other exporting countries.) The Argentines have raised questions about why the U.S. does not halt all sales.

We cannot accept Martinez de Hoz's argument on burden sharing; in our view, the loss by Argentina of its traditional markets is a direct result of Argentine insistence to keep the informal export limits secret. (The market, expecting unrestricted Soviet purchases, quotes a premium on Argentine grains. The GOA also imposed a minimum export price for tax purposes which is above world market.) Since the grains issue will be treated in other meetings, you may wish to touch upon it only lightly, if at all.

Argentine-Soviet Ties.

Argentina's expanding ties to the Soviet Union are discussed in a recent paper to the PRC (~~attachment B~~ ^{Tab B}). Although those ties are thus far limited, and the best antidote to them is strengthened Argentine ties with the West, in your discussion, you may wish to:

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-- Express our surprise that Argentina's strongly anti-Marxist government would expand its cooperation so rapidly at this particular time;

-- Ask the Minister to give his version of the extent of that cooperation;

-- State that we wonder whether the GOA's interests are really served by being seen as cooperating so closely with the Soviets (most recently at the UNESCO meeting).

-- Note that, even though we recognize the pragmatic (and thus perhaps self-limiting) nature of the relationship, we consider this an undesirable development;

-- State that while Argentine society may have the strength to deal with a Soviet presence, we consider the image of rapidly expanding Argentine-Soviet political and economic ties an undesirable example for other countries in the hemisphere.

-- Note that we share Argentine concerns over stepped-up Soviet-Cuban efforts in the Hemisphere.

Martinez de Hoz will argue that President Videla and the Argentine military leaders have a profound commitment to the West, wish to reconstruct Argentine society on liberal democratic principles, and desire good relations with the U.S. He is also likely to say that U.S. policies are pushing Argentina into cooperation with the Soviet Union. An example he may cite is the newly created group of experts in the UNHRC, which is expected to make Argentina a principal target, and Argentine concern that the work of this group, which will heavily focus on the fate of past disappearances rather than current security practices, may result in efforts, supported and encouraged by exiles, of public censure in the UN. He may stress that to avoid this will be a principal objective of Argentine diplomacy during the coming year.

You may wish to say that human rights remain of major concern; that as General Goodpaster stressed, public censure is not our objective; that we hope the GOA will find a mechanism for informing relatives on the fate of disappeared persons where such information is available; that the newly-established UNHRC Working Group, which is instructed "to bear in mind the need to...carry out its work with discretion," could serve as a useful intermediary in this matter, as could

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the Catholic Church, which we understand has offered its services to the GOA in this matter; and that we are prepared to consult on this as on other issues.

Commercial Interests

Martinez de Hoz has been the guest of Mr. David Scott, Chairman of Allis Chalmers, one of several major U.S. firms bidding on parts of the \$2 billion binational Yacyreta hydro-electric power project on the Parana River between Argentina and Paraguay. As you recall, Deputy Secretary Hodges recently led a trade delegation to Buenos Aires and Asuncion. You may wish to express interest in the bids of the U.S. companies.

for John A. Booley
Peter Tarnoff
Executive Secretary

ATTACHMENTS:

- Tab B X. Is Argentina Cooperating with the U.S. on Grains Restrictions?
- Tab A X. The Argentine-Soviet Relationship

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IS ARGENTINA COOPERATING WITH THE U.S.
ON GRAINS RESTRICTIONS?

Statements that Argentina is not giving meaningful cooperation on grains exports to the Soviet Union are heard frequently, both within and out of the U.S. Government. This paper examines both sides of this argument. Our conclusion is that Argentina has not exceeded those export totals which were proposed as the maximum in the GOA's commitment to General Goodpaster. On the other hand, Argentine commitments, except for sorghum, are extremely loose. The potential problems inherent in the arrangement were greatly diminished by severe drought.

A. Arguments that Argentina is not cooperating:

In looking to the next crop year, better Argentine cooperation limiting sales to the Soviets is essential; we cannot count on a repeat of this year's drought.

-- Argentine exports this year to the Soviets will be twice the previous high in 1978 (6.3 million tons -- wheat, corn, sorghum and soybeans -- as against 2.9 million tons in 1978).

-- This 3.4 million ton increase represents a substantial portion of the additional purchases the Soviets have been able to make in trying to offset part of our partial grains embargo (total additional purchases world-wide are now estimated at some 6 million tons).

-- Argentina's sales to the Soviet Union this year will be almost 70 percent of its total grains exports (excluding soybeans) world-wide and almost 90 percent of Argentina's total sales of feed grains, (corn and sorghum).

-- Martinez de Hoz has refused to institute export controls by destination; instead, he relies on understandings with the Soviets to limit Soviet direct purchases.

-- The problem of diversion through third country purchases is left to us; Martinez de Hoz alleges he has no power to control diversions once shipments leave Argentine ports.

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B. Arguments that Argentina is cooperating:

-- The Argentines, at least so far, appear to be in compliance with their commitments. Reportedly, they asked the Soviets to limit their purchases (corn and sorghum); sales already made or exported are consistent with the Goodpaster understandings (corn: 3 million tons; sorghum: 1 million tons).

-- These levels for feed grain exports seemed meaningful at the time of Goodpaster's mission; at the time, the estimates foresaw an Argentine bumper crop, sufficient largely to undo the U.S. embargo (total export availabilities of some 14 million tons of wheat, corn, sorghum, and soybeans).

-- Sales of wheat -- about double the previous historic high -- were committed before the Goodpaster mission; we do not know of any substantial direct sales or diversions to the Soviet's since that time.

-- Since January, the Argentine feed grain crop (wheat was harvested earlier in the year) was reduced by drought; in the process, the potential problem of diversions via indirect shipments has largely disappeared. However, neither we nor the Argentines reopened the question of levels.

-- There is some merit to the Argentine argument that the U.S. has undersold Argentina in its traditional markets (e.g. Japan) or markets Argentina hoped to enter (Mexico); however Argentina, with no announced ceilings, has done nothing to avoid being priced out of these markets.

-- Martinez de Hoz's reluctance to impose export controls is understandable; the dismantling of the controls accumulated under Peronism, has been the cornerstone of his economic policy.

C. Conclusions:

-- Argentina apparently is within the broad limits discussed by Goodpaster.

-- The Argentines did nothing to try to preserve

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their traditional markets (as envisaged in another part of the Goodpaster understandings).

-- Argentina's perception is that the U.S. possibly contributed to its problem by underselling Argentina's traditional markets.

-- The problem was confined by the consequences of the drought.

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~~SECRET~~THE ARGENTINE-SOVIET RELATIONSHIPTHE ISSUE

In recent months the Soviets have stepped up their efforts to woo Argentina and Brazil, the two major powers on the South American continent.

In the case of Brazil, a Soviet parliamentary delegation brought a personal invitation from Brezhnev for President Figueiredo to visit Moscow; our Ambassador in Brasilia conveyed concern but Figueiredo accepted in principle, with the visit to take place some time in 1981. In the case of Argentina, the Soviets have offered nuclear materials and have probed Argentine interest in military cooperation. Both countries have been visited by high-level economic delegations.

U.S. interests in Argentina, the subject of this paper, are considerable. Argentina is a major center of Spanish-speaking America, with considerable influence throughout the region. Primary U.S. interests are Argentina's orientation in the East-West relationship, nonproliferation, human rights (both integrity of the person and Argentina's future political evolution), and the maintenance of peace and stability in the Hemisphere (i.e. peaceful resolution of the Beagle Channel dispute). Other U.S. interests are substantial bilateral trade and investment ties; a constructive Argentine role on major international issues; and a positive contribution to the affairs of the Hemisphere.

This paper examines:

-- the scope, motivation and prospects of Argentine-Soviet cooperation; and

-- possible U.S. actions to contain Soviet efforts to gain increased political and economic influence, taking into account U.S. interests in human rights and nuclear non-proliferation.

THE FACTS

Contact and cooperation between Argentina and the Soviet Union is expanding in six areas:

-- Political Cooperation, principally focused

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on the UN. The Soviets and the GOA have agreed to increase consultations prior to UNGA sessions and to support each other, especially on human rights. Moscow has ceased its propaganda attacks on the GOA. Argentina, on the other hand, has voted with the majority in condemning the Soviet invasion of Afghanistan. Videla will visit Peking in late May, partly in an effort to maintain balance in Argentine foreign policy. Argentine officials have been defensive about their support of Soviet-Cuban causes, stressing the pragmatic character of such cooperation.

-- Beagle Channel. The Soviets are publicly supporting Argentina against Chile. (While papal mediation is continuing, no solution to the dispute is in sight at this time.) During the period of high military tensions in December 1978, the Soviets reportedly offered to sell surface-to-surface and surface-to-air missiles to Argentina. Recently there have been disturbing reports of renewed Argentine contingency planning for military action, although probably as a tactic to pressure the Chileans into concessions.

-- Growing Economic Ties. Argentina and the Soviet Union are becoming major trading partners. Argentine exports to the U.S.S.R. grew from \$219 million in 1976 to \$385 million in 1978 and could reach \$900 million this year (compared with an estimated export total world-wide of \$8 billion). The Soviet Union will become Argentina's largest market for agricultural exports in 1980.

Argentina is running a large surplus with the Soviet Union. Thus, there is considerable pressure on the Soviets to increase exports to Argentina and for the GOA to help the Soviets identify market opportunities. Both governments are interested in further expanding bilateral trade. On April 15 they signed an economic agreement; reportedly, Argentina agreed to maintain its exports of wheat at current levels. There are conflicting reports on whether Argentina agreed to set a specific figure for coarse grains (corn and sorghum). Argentine officials, however, have assured us that despite heavy Soviet pressure they rejected a commitment to a specific figure.

-- Cooperation in Fisheries. The Soviets have offered wide-ranging cooperation in return for fishing rights within Argentina's claimed 200 mile zone; joint scientific investigations; and the establishment of

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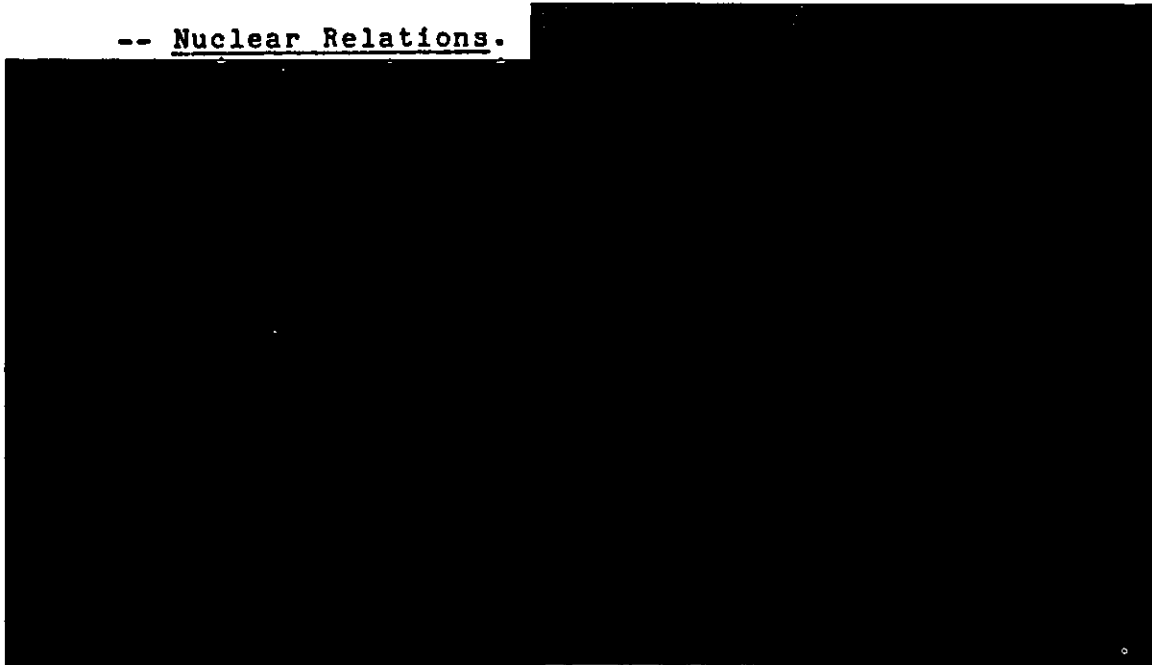
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joint Soviet-Argentine fishing enterprises. The GOA apparently has decided to proceed with bilateral arrangements (a protocol covering a joint study of resources in the South Atlantic was signed last month) but is now considering cautiously the legal, political, and security implications of a significant increase in the Soviet presence in the South Atlantic.

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-- Nuclear Relations.



-- Military Offers. Since late 1979, there have been exchanges of high-level army delegations, which discussed training methods in each country, and exchanges of port visits between the two navies. Despite numerous Soviet overtures, however, the Argentines have not purchased any Soviet arms. Western Europe plus Israel have emerged as Argentina's principal arms supplier. (Some \$3.5 billion of military hardware have been purchased by Argentina from European suppliers and the Israeli Government since 1977.) The Argentines also have not accepted Soviet proposals for training and exchanges. Resistance to a supply/training relationship appears to remain strong within the Argentine Armed Forces, although perhaps not as firm as one or two years ago; alleged buying missions have been scheduled to the Soviet Union, possibly as an intended warning to the U.S.

SIGNIFICANCE AND PROSPECTS

In seeking to expand cooperation with Argentina

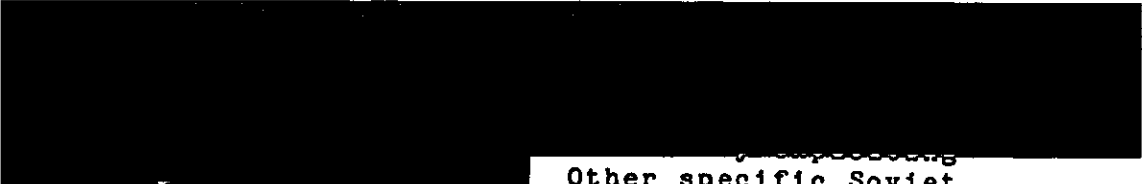
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(and Brazil), the Soviets are pursuing both specific operational and long-term strategic interests.

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 Other specific Soviet interests are access to Argentine grain supplies and potential opportunities for Soviet exports (power generating equipment, heavy machinery). The high interest in Argentine grains supplies has been enhanced by the U.S. embargo. The recently concluded trade agreement suggests the relationship could be permanent.

Over the next decade, the Soviets may also hope to gain some access to Argentine naval and air facilities, especially for reprovisioning of naval units, which would make it easier for them to pursue naval and air operations over the South Atlantic. The Soviets at present have access on the west coast of Africa but no support points in the Western Hemisphere, except in Cuba. The small Soviet flotilla continually deployed in the South Atlantic currently limits its operations largely to West African waters. (In the past the Soviets have also conducted reconnaissance flights from Murmansk and Havana, which terminated in Conakry and Luanda. The Soviets have now lost access to Conakry; there have been no reconnaissance missions on the Havana-Luanda run this year.)

From the Argentine standpoint, the Soviet overtures have considerable attraction. They offer concrete benefits -- economic (because of a profitable trade relationship with the Soviets), political (because of isolation in the West over human rights), and technological (because of differences with the U.S. on safeguards assurances). Argentine leaders also believe that expanded ties with the Soviet Bloc will help them gain greater freedom of action and enhance Argentina's international position. Both the economic ministry and the foreign office are strong advocates of expanded cooperation with the Soviet Bloc. Despite the present regime's conservatism and strongly anti-Marxist bent, this policy appeals to Argentine nationalism in the present climate of strains with the West.

Prospects are for expanding economic ties over

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the next decade, irrespective of U.S. action. This may inhibit Argentine support of U.S. positions in opposition to the Soviet Union. The extent of Argentine-Soviet political cooperation, on the other hand, will depend importantly on the state of U.S.-Argentine relations and the issues between us. The outlook for Argentine-Soviet military cooperation is uncertain; however, there may be growing pressure from the Soviets to use some portion of the trade surplus for military purchases.

In sum, looking ahead into the decade, Argentine-Soviet relations are likely to expand, a development we must watch closely and take into account. The growth and scope of Soviet influence will partly depend on U.S. policy. Argentina's basic cultural and political identification with the West -- Europe, Latin America, and the U.S. -- remains an important asset, and a fundamental realignment of Argentine foreign policy, away from its present alliance relationships, is unlikely at this time. But even without formally forsaking the OAS/RIO Treaty, Argentina could drift toward a neutral position on East-West issues or provide the Soviets considerable specific support in return for Soviet benefits. Such a development could represent a significant political and psychological setback to the United States.

U.S.-ARGENTINE RELATIONS

In recent visits to Buenos Aires, U.S. emissaries -- the Goodpaster, Hodges, and Smith missions -- have stressed our desire to strengthen relations and have placed greater emphasis than in the past on seeking cooperation and understanding on East-West and nuclear issues. They have also, however, continued to emphasize that human rights remain important to us and that we will have to "agree to disagree" with respect to the question of NPT-type full-scope safeguards on Argentina's nuclear program.

Over the past four years U.S.-Argentine relations had been strained, principally because of our concerns and actions over human rights; and because of U.S. diplomatic efforts to persuade other suppliers of nuclear technology to seek full-scope safeguards as a condition for the sale of new equipment.

Our efforts to persuade the FRG and the Swiss have failed, and their sales of nuclear equipment

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